

**BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2006-92-WS**

IN RE:)
)
Application of Carolina Water Service,)
Inc. for adjustment of rates and charges)
for the provision of water and)
sewer service.)
_____)

**DIRECT TESTIMONY
OF
STEVEN M. LUBERTOZZI**

**Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS ADDRESS
FOR THE RECORD.**

A. My name is Steven M. LubertoZZi. I am employed as the Director of Regulatory
Accounting at Utilities, Inc., 2335 Sanders Road, Northbrook, Illinois 60062.

Q. WHAT IS YOUR PROFESSIONAL BACKGROUND?

A. I have been employed by Utilities, Inc. since June of 2001. Since that time I have
been involved in many phases of rate-making in several regulatory jurisdictions. I
graduated from Indiana University in 1990, with a bachelors degree and am a Certified
Public Accountant. I had four years of public accounting/financial analysis experience
prior to joining Utilities, Inc., and I am a member of the American Institute of Certified
Public Accountants. I have successfully completed the Eastern Utility Rate School that
NARUC and Florida State University co-sponsor and I have testified in rate adjustment
cases before this Commission as well as the state utility regulatory commissions in
Illinois, Indiana, Florida, Maryland, New Mexico, and North Carolina.

1
2 **Q. PLEASE EXPLAIN YOUR JOB RESPONSIBILITIES AT UTILITIES, INC.**

3 **A.** My responsibilities encompass all aspects of utility commission regulation in
4 sixteen of the states where Utilities, Inc. operates (Georgia does not regulate water and
5 sewer utilities). These duties include preparation of rate case applications, coordinating
6 Commission audits, developing and delivering testimony before utility commissions,
7 obtaining commission approval of territory expansions, utility system transfers,
8 participation in rulemaking proceedings, and keeping apprised of industry trends and
9 current events.
10

11 **Q. PLEASE DESCRIBE CAROLINA WATER SERVICE, INC.**

12 **A.** Carolina Water Service, Inc., which I will sometime refer to as “CWS” or the
13 “Company”, is a wholly owned subsidiary of Utilities, Inc. CWS was incorporated in
14 1972 for the purpose of owning and operating water and wastewater utility systems.
15 Since that time, CWS has grown to serve approximately 6,100 water connections and
16 10,000 wastewater connections. These customers are located in eleven counties across
17 the state. CWS maintains an operations and customer service office in West Columbia.
18 Customer payments, meter readings and service orders are processed from the West
19 Columbia office. Administrative functions such as management, accounting, data
20 processing and human resources are performed from the Utilities, Inc. office in
21 Northbrook, Illinois.
22

1 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

2 **A.** The purpose of my testimony is to sponsor the Company's application for an
3 adjustment of certain rates and charges for the provision of water and sewer services.
4

5 **Q. THE APPLICATION ALSO SEEKS APPROVAL FOR A MODIFICATION FOR**
6 **CERTAIN TERMS AND CONDITIONS OF PROVIDING THESE SERVICES,**
7 **DOES IT NOT?**

8 **A.** Yes, but Mr. Haas will present testimony supporting the Company's request in
9 that regard.
10

11 **Q. WHY IS CWS REQUESTING RATE RELIEF AT THIS TIME?**

12 **A.** For the test year ended September 30, 2005, CWS earned on a per book basis a
13 2.70% return on its rate base without adjusting for rates charged under bond pursuant to
14 Order No. 2005-465. This return is less than one-third of the rate of return on rate base
15 authorized in the Company's last rate case last year. The Company's current return on
16 rate base is also well below its cost of capital which, as the Commission will hear from
17 the Company's witness Mrs. Ahern, is 11.10% - 11.75%. Capital will become more
18 costly and eventually unavailable without adequate relief. According to statistics
19 compiled by the United States Department of Labor Bureau of Labor Statistics, the cost
20 of water and sewer maintenance has increased approximately 5.6% per year since the
21 Company's last rate case. While CWS's rates have recently been adjusted, the
22 Company's per book operating expenses alone have since increased by over \$800,000.

1 Without rate relief, CWS would become unable to meet its financial obligations. Such a
2 scenario places in jeopardy the Company's ability to continue to provide safe, reliable
3 and efficient water and sewer utility services to its customers.
4

5 **Q. PLEASE DESCRIBE THE COMPANY'S APPLICATION.**

6 **A.** In addition to the proposed rate schedule, the Application contains financial
7 statements consisting of a balance sheet, income statements, rate base and rate of return
8 calculation, a test year revenue calculation under current rates, a revenue calculation
9 under proposed rates, and a schedule of current and projected customers. Also included
10 are the most recent approval letters from DHEC and a sample customer bill form.
11

12 **Q. WOULD YOU PLEASE SUMMARIZE THE PROPOSED RATE CHANGES IN**
13 **THE COMPANY'S WATER RATE SCHEDULE?**

14 **A.** The proposed changes to the Company's water rate schedule would increase the
15 Residential Base Facility Charge, or BFC, from \$10.25 to \$11.61 per month for a
16 residential unit, with the BFC for commercial customers being increased proportionally
17 depending on the size of their water meter. The increase in the Base Facility Charge
18 applies both to the full-service customers and the distribution-only customers. The
19 proposed changes to the water rate schedule would increase the commodity charge from
20 \$3.32 per thousand gallons of water consumed to \$3.55 per thousand gallons of water
21 consumed by a full service customer. For water customers receiving distribution only

1 service, the proposed change in water commodity charge would be to increase it from
2 \$1.90 to \$2.03 per thousand gallons consumed.

3
4 **Q. WHAT IS THE IMPACT OF THE PROPOSED WATER RATE CHANGES?**

5 **A.** The proposed increase in water charges for the BFC is approximately 13%. The
6 proposed increase for commodity charges is approximately 6.8%. In terms of dollars and
7 cents, the requested increase in water charges for an average full service customer is
8 \$0.73, which is based on an average water consumption of 5,900 gallons per month.

9
10 **Q. PLEASE SUMMARIZE THE PROPOSED RATE CHANGES TO THE**
11 **COMPANY'S SEWER RATE SCHEDULE.**

12 **A.** The Company proposes to increase the full-service sewer charge from \$36.46 to
13 \$42.40 per month. The monthly fee for Mobile Homes in all areas would increase from
14 \$26.20 to \$30.47. Monthly charges for collection-only customers in all areas are
15 proposed to be increased from \$23.47 to \$27.30 per residential unit or single family
16 equivalent.

17
18 **Q. WHAT IS THE IMPACT OF THE PROPOSED SEWER RATE CHANGES?**

19 **A.** The proposed sewer increase is \$5.94 per month, or approximately 16.3%. For
20 mobile home customers, the increase is \$4.27, or approximately 16.3%. For sewer
21 collection only customers the increase is \$6.77, or approximately 16.3%.

1 **Q. MR. LUBERTOZZI, WERE THE FINANCIAL STATEMENTS ATTACHED TO**
2 **THE APPLICATION PREPARED BY YOU OR UNDER YOUR DIRECTION?**

3 **A.**Yes. They are attached as Exhibit B to the application.
4

5 **Q. WHAT IS CONTAINED IN THE FINANCIAL STATEMENTS?**

6 **A.**The test year chosen by the Company is the year ended September 30, 2005. This
7 was the most recent twelve-month period for which full data was available at the time of
8 the Company's filing in March of 2006. Schedule A is the Balance Sheet as of
9 September 30, 2005. At the end of the test year, CWS had assets of approximately \$36.6
10 million. This includes approximately \$33.8 million of Net Utility Plant. Schedule B is
11 the Income Statement for the test year and is comprised of an Income Statement for
12 Combined Operations, Water Operations, and Sewer Operations, and a list of brief
13 explanations for the pro forma adjustments made to these Income Statements. As I
14 mentioned before, the Company's per book operating expenses are nearly \$1,000,000
15 more than the operating expenses allowed in the last rate case. With the pro forma
16 adjustments proposed in Schedule B and in my testimony, the Company has experienced
17 an increase in operating expenses of over \$1.45 million since its last rate case. The
18 increase in expenses contributes to the Company's need for rate relief.

19 Schedule C is the Rate Base and Rate of Return Statement for Combined
20 Operations, Water Operations, and Sewer Operations. Schedule D is the Consumption
21 Analysis under present rates and is comprised of two pages, one reflecting the calculation
22 of water revenues at present rates and the second reflecting the calculation of sewer

1 revenues at present rates. Schedule E reflects the same calculations under Proposed
2 Rates.

3
4 **Q. WOULD YOU PLEASE PROVIDE A BRIEF EXPLANATION OF THE PRO**
5 **FORMA ADJUSTMENTS INCLUDED ON SCHEDULE B?**

6 **A.** Operator and Officer Salaries were annualized as of September 30, 2005.
7 Pension & Other Benefits were annualized to match end of test year salaries and wages.
8 Regulatory Commission Expense was adjusted to reflect the cost of this proceeding
9 amortized over a three-year period. Depreciation Expense was adjusted to reflect the
10 annualized depreciation expense on end of test year plant as well as pro forma additions
11 to plant. Taxes Other Than Income have been adjusted for changes in the payroll taxes
12 based on current tax rates and annualized salary figures as discussed above. In addition,
13 the Regulatory Commission Tax was adjusted to an estimated increase in the assessment
14 by the PSC. Gross Receipts Taxes were annualized on revenues under present and
15 proposed rates. State and Federal Income taxes were calculated at the current rates of 5%
16 and 35%, respectively. AFUDC is eliminated for ratemaking purposes. Interest Expense
17 was synchronized using the capital structure of the consolidated Utilities, Inc. group of
18 companies, consisting of a debt / equity ratio of 59.1% / 40.9% and an embedded cost of
19 debt of 6.42%.

20
21 **Q. WHAT IS CONTAINED IN SCHEDULE C?**

1 **A.** Schedule C is the Rate Base and Rate of Return Statement. As of September 30,
2 2005, CWS has a rate base of approximately \$16,504,000. This compares to a rate base
3 of approximately \$14,941,000 at the end of the test year in the last rate case as approved
4 by the Commission. This increased investment has contributed to the need for rate relief.
5 As indicated on page 1 of Schedule C, CWS earned a 2.70% return on rate base during
6 the test year. This is well below the Company's cost of capital.

7
8 **Q. WHAT PRO FORMA ADJUSTMENTS ARE REFLECTED ON SCHEDULE C?**

9 **A.** There are several. Working capital has historically been used in CWS rate cases
10 and is again used in this proceeding. Working capital is calculated at one-eighth of test
11 year operating expenses. A pro forma adjustment is made to working capital to match the
12 pro forma operating expenses. Another rate base adjustment indicated on Schedule C is
13 to recognize plant additions made after September 30, 2005. Similarly, an adjustment is
14 also made to reflect capital projects that were either underway but not yet complete as of
15 the end of the test year or which are planned. These uncompleted and planned pro forma
16 plant projects are needed to provide customers with safe and reliable water and sewer
17 service. A capitalized time adjustment is also included.

18
19 **Q. WHAT RATEMAKING METHODOLOGY DOES THE COMPANY PROPOSE**
20 **THAT THE COMMISSION EMPLOY IN THIS CASE?**

21 **A.** The Company proposes that its rates be determined utilizing the rate of return on
22 rate base methodology.

1
2 **Q. IS RATE OF RETURN ON RATE BASE TREATMENT APPROPRIATE FOR**
3 **THE COMPANY?**

4 **A.** Absolutely. The Company has a large rate base and needs to earn a rate of return
5 that is sufficient to obtain the necessary equity and debt capital that a larger utility needs
6 for sound operation.

7
8 **Q. MR. LUBERTOZZI, DOES THE COMPANY SEEK TO INCLUDE ANY**
9 **PAYMENTS TO AFFILIATED ENTITIES?**

10 **A.** Yes. Included in the Company's test year expenses and included in capital
11 expenditures are payments to Bio-Tech, Inc. Bio-Tech is a South Carolina corporation
12 which, like CWS, is a wholly-owned subsidiary of Utilities, Inc. Bio-Tech's business
13 focuses on two primary services, one of which is sludge hauling and disposal and the
14 other being wastewater plant maintenance, repair and construction. The Company uses
15 both of these services, although the sludge hauling and disposal service comprises the
16 majority of our payments to Bio-Tech. The sludge disposal portion of Bio-Tech's
17 business is regulated by DHEC, which has issued a land application permit for Bio-
18 Tech's disposal site on Old State Road in Lexington County.

19
20 **Q. DOES BIO-TECH PROVIDE SERVICES ONLY TO THE COMPANY AND**
21 **OTHER WHOLLY-OWNED SUBSIDIARIES OF UTILITIES, INC.?**

1 **A.** No. Bio-Tech also serves other public utilities and governmentally owned
2 utilities such as municipalities, counties, special purpose districts and public service
3 districts.

4
5 **Q. HOW ARE BIO-TECH'S CHARGES FOR SERVICES TO THE COMPANY**
6 **DETERMINED?**

7 **A.** Bio-Tech charges the Company the same rates it charges to any other similarly
8 situated customer. The per mile rate and disposal charges paid by CWS is the same as it
9 is for any other customer, whether it is affiliated with the Company or not. Bio-Tech's
10 charges for wastewater plant maintenance, repair and construction are the same for all of
11 its customers, both affiliated and unaffiliated.

12
13 **Q. WERE THERE ANY BIO-TECH EXPENSES INCLUDED IN THE COMPANY'S**
14 **LAST RATE PROCEEDING?**

15 **A.** Yes. The rates set in the Company's last rate case included expenditures paid to
16 Bio-Tech. This was also true for another Utilities, Inc. operating subsidiary in South
17 Carolina, United Utility Companies, Inc., which has previously received rate relief.

18
19 **Q. WOULD NOT THE EXPENSES ASSOCIATED WITH THE SERVICES**
20 **PROVIDED TO THE COMPANY BY WATER SERVICE CORPORATION**
21 **ALSO CONSTITUTE AFFILIATE PAYMENTS?**

1 **A.** No, they would not because there are no payments involved, only expense
2 allocations. As the Commission knows from the nearly thirty years worth of rate cases it
3 has considered involving the Company and other affiliates of Utilities, Inc., Water
4 Service Corporation, or WSC, is a wholly owned subsidiary of Utilities, Inc. that
5 provides management services to CWS and other operating subsidiaries in the sixteen
6 states where Utilities, Inc. has operations. WSC is captive in the sense that its services,
7 which include management, payroll, tax, accounting, procurement services, are only
8 provided to subsidiaries of Utilities, Inc. As the Commission's decisions through the
9 years accepting this arrangement reflect, it is cost efficient since it avoids duplication of
10 these services and functions for each operating subsidiary. This conclusion is tested in
11 each rate case by an audit of the allocations and the records of WSC.

12
13 **Q. MR. LUBERTOZZI, WHAT INCREASE IN SEWER RATES DOES THE**
14 **APPLICATION PROVIDE FOR MIDLANDS UTILITY, INC.?**

15 **A.** The proposed rate schedule provides for an increase in our monthly sewer rate for
16 commercial customers to \$42.40 per single family equivalent. Under normal
17 circumstances, Midlands would be a commercial customer under the definition contained
18 in section one of the proposed sewer rate schedule. However, Midlands currently pays
19 the Company only \$15 per single family equivalent for bulk service provided for the
20 Vanarsdale Subdivision in Midlands' service area pursuant to a settlement approved by
21 the Commission in the last rate case. The Company recognizes that Midlands has recently
22 implemented a pass-through rate for its collection only customers. If the tariffed rate for

1 commercial customers was charged to Midlands, its customers would experience an
2 increase in their charges for sewer service from \$15 to \$42.40, or \$27.40 per month,
3 would be imposed on Midlands' customers. Given these unusual circumstances, the
4 Company proposes that Midlands be charged \$17.45 per single family equivalent, as is
5 reflected in Schedule E of Exhibit "B" to the application. This would constitute an
6 increase of approximately 16.3% which is equivalent to the increase proposed to other
7 sewer customers.

8
9 **Q. DOES THIS CONCLUDE YOUR TESTIMONY AT THIS TIME?**

10 **A.** Yes, it does.